

2020 EEI Conference Takeaways

Utilities

- **Key Points.** We hosted virtual meetings with 38 companies at the EEI Financial Conference on November 8-11th. The tone of the conversations were positive with sales recovering nicely and most utilities finding offsets (cost controls and regulatory support) to COVID impacts. Further, the de-carbonization theme was in full force with no shortage of investment opportunities to modernize the electric generation fleet as well as the enabling T&D infrastructure. On the strategic front, conversations centered around the trend toward pure play utility models and interest in M&A, particularly on the LDC side given depressed valuations.

- **Strategic Questions Abound.** This year's conference featured many discussions around strategic options as diversified utilities were asked about transitioning to pure play models and combo electric/gas utilities were asked about their appetite for LDC acquisitions. Among the diversified names, ED and SRE expressed the most openness to strategic moves, in our view. Separately, CNP and OGE were fairly reserved on their comments on ENBL, though we expect to hear more from CNP at the 12/7 analyst day. Companies that are in the midst of divesting or potentially divesting assets (EXC, DTE, PEG, PPL) faced questions about whether they would entertain regulated M&A opportunities post-divestiture (assuming they have greater financial flexibility).

On the LDC front, reviews were mixed with most mgmt. teams expressing confidence in the long-term business model, but some not willing to add gas to the mix. Companies that expressed the most openness to acquiring LDC systems, in our view, were ALE, BKH, MDU, SO and WEC (not without some cautious language). And for good measure, there was a mid-EEI Reuters report suggesting that NEE made a recent offer for EVRG, which both companies talked down.

- **Optimism on Sales.** Most utilities expressed cautious optimism that C&I sales are coming back and some portion of the uptick in residential could be sustainable given a new working environment. Certain utilities in desirable areas (IDA, NWE and POR, for example) also discussed strong in-migration trends as a result of increased mobility/flexibility in the work place.
- **Guidance Updates.** A few utilities used the EEI conference to update capex/growth forecasts. AEP laid out a robust capex refresh that was heavy on renewables and wires investment (surprise, surprise) and continued to support the 5-7% EPS CAGR. ALE lowered the 2019-2024 EPS CAGR to 4% from 5-7% reflecting COVID impacts and pressure on wind returns. And NWE initiated 2021 EPS guidance and increased the 5-year capex budget, which continues to support the mid-point of the 3-6% EPS CAGR.
- **Company-Specific Takeaways in Body of Note.**

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ALLETE Inc. (ALE/Equal Weight/\$58.30) (Akers)

Growth Rate Buckles Under COVID Pressures. ALE is one of the more COVID-exposed companies within our universe because of Minnesota Power's industrial (especially taconite) heavy customer base. Taking various pressures under consideration (electric demand, down-sized transmission project, lower assumed equity issuance price, pressure on wind returns, etc.), mgmt. revised the EPS CAGR to 4% (through '24 off the '19 adjusted base of \$3.35) from 5-7%. The growth rate assumes 3% growth at the utility operations and 30% at ALLETE Clean Energy (ACE). The company acknowledged that the 4% CAGR could be conservative should an economic recovery prove faster/stronger than anticipated. On the positive side, ALE is seeing a pickup in steel demand and, importantly, Keetac recently indicated plans to reopen in December, which provides more certainty into 2021, though Verso's future remains unclear. MP filed a request to defer the lost revenue associate with Keetac and Verso – upside to '20E & '21E if approved – and plans to file a general rate case in November '21.

Tone Change on ACE. Mgmt. indicated that ACE is beginning to see pressure on wind returns stemming from increased competition and lower power prices. As a result, the previous target of adding 2-3 wind projects annually may prove challenging. ALE will continue to evaluate wind opportunities, but is also looking at other services, such as solar, storage and grid resiliency as potentially more attractive growth avenues. On the Q3 call, which was during EEI, mgmt. also mentioned the possibility of optimizing the ACE portfolio, which we expect could include asset sales.

Ameren Corporation (AEE/Overweight/\$82.37) (Kalton)

Waiting on the CapEx Refresh. EEI is not a big event for AEE as the company provides prompt year EPS guidance and the 5-yr capex refresh in conjunction with Q4 earnings. That being said, we picked up a few tidbits on pending items. First, the renewables RFP in MO is ongoing and it is doubtful that results will be in on time to include in the '21-25 capex refresh – mgmt. is always hesitant to get too far in front of the regulatory approval process in terms of officially adding capital to the base plan. That being said, we think there are plenty of capital investment needs outside the RFP to support a 6%+ EPS CAGR well into the 2020s. As an aside, mgmt. noted that capex spending on technology is up many multiples in MO since the MoPSC approved the PISA mechanism – the reduced regulatory lag allows for improved returns for short lived assets. If/when new MO renewables comes into the fold it remains an open question as to whether it will be purely incremental to the '21-25 plan or whether there will be some capex shifting (factors will include customer rate considerations and financing needs). No new developments on the IL legislative front – mgmt. continues to work with stakeholders as everyone eyes comprehensive energy legislation in the Spring '21 session (and not the Nov. '20 veto session). At issue for AEE are the existing formula rate structure and the allowed ROE methodology for the electric distribution operations and (maybe) the investment rider for the gas utility.

American Electric Power Company, Inc. (AEP/Overweight/\$91.15) (Kalton)

New Robust CapEx Plan. While AEP's 5-yr capex refresh ('21-25) was higher than we anticipated (\$37B vs. \$35B), the underlying drivers were exactly as we expected (wires + renewables). Renewables represents nearly 15% of the planned capex vs. 7% in the original '20-24 capex guidance. Yes, the \$2B North Central Wind project was officially added to the capex schedule but other regulated renewables are coming into the fold at AEP's vertically integrated utilities. Renewable additions (owned & PPA) in these jurisdictions are expected to total over 4,600 MW during '21-25 with another 3,400 MW planned for '26-30. As for wires, there is plenty of spend across the board with seams solutions offering potential significant upside in the mid-20s and beyond as transmission grid spend will likely accelerate to better allow for the flow of renewable power across regions. AEP's large geographic footprint combined with strong transmission expertise positions the company for this coming opportunity. All told, the phrase "long capex runway" gets thrown around a lot in the utility sector, but it's clearly appropriate when framing AEP's investment opportunities.

Thoughts on EPS Guidance / Asset Sales. AEP also rolled out initial '21 EPS guidance of \$4.51-\$4.71, the mid-point of which represents a 6% increase over the '20 EPS guidance mid-point of \$4.35 – consistent with AEP's 5-7% EPS CAGR goal. We view the '21 guide as solid but not exceptional (our 21E EPS is \$4.70). Notably, the '21 forecasted ROE of 9.0% is a smidge below our estimate of 9.2%. While 20 bps doesn't sound like much, it equates to ~\$0.20, or 4%, of EPS power. Keep in mind, the earned ROE guidance heading into '19 was 9.65% and heading into '20 was 9.1% (however, '20 was characterized as a transition year due to a heavy rate case cycle). We think the overall downward trend in allowed ROEs is playing a role in the ROE guidance but it is not the only factor. Mgmt. noted that 30% of the company's capital spend does not have formula or rider rate type recovery, which results in regulatory lag especially as capital spend goes up. This is an area of focus for mgmt. and could result in longer-term

upside if AEP can improve the regulatory frameworks. Last, in our view, there was no discernible change to mgmt.'s thought process around the potential sale of operating utilities. A number of factors go into the calculus including the ability to efficiently recycle capital and the organic growth prospects of the underlying asset (operating utility) in question.

American Water Works (AWK/Equal Weight/\$164.37) (Reeder)

If It Ain't Broke, Don't Fix It. This should not come as a shock but management made it clear that the proven strategy and values that have yielded success over the years will continue to be adhered to going forward and it is up to them to continue to execute. Pursuing timely recovery of much needed water/wastewater infrastructure spend while keeping operating costs in check to maintain customer affordability is the core and can lead to attractive 5-7% risk-adjusted EPS growth on its own. Then layer on top a tuck-in acquisition strategy that has gained momentum in recent years and should remain at these elevated levels (if not further accelerate) as (1) states continue to adopt policies to encourage consolidation, (2) COVID and other financial stresses challenge municipal budgets and (3) regulatory requirements make it increasingly difficult to efficiently and effectively operate small-to-mid sized systems. And finally, management is committed to the non-regulated businesses and believe both are complimentary, capital-light ways of augmenting the regulated growth. As such, the 7-10% growth triangle is likely to persist well into the future.

Other Tidbits. Committed To Water/Wastewater. Management believe investors ascribe a high value to the fact that AWK is a pure play water/wastewater utility – and all of the positive long-term fundamentals of the industry like decades long elevated capex needs, consolidation potential, etc. – and is committed to remain that way. The focus is on continuing to build the tuck-in M&A pipeline which is already very strong. Military Marches On. While AWK has won 5 of the last 6 military base awards, the company is by no means resting on its laurels and continues to try to bring value and solutions to the bases under operation to boost its competitive position. AWK is involved in 4 open solicitations, including a Navy base (the first Navy base to embark down the privatization path), and 2 are expected to be awarded within the next 3-6 months. Management indicated the universe of bases yet to be privatized that AWK would be interested in (i.e. sizeable) stands at about 70. External Equity. The plan remains to close the NY American Water cash sale to AQN in Q1 and look to externally raise about \$500M of equity in mid-'22. The timing of equity is driven by the rate of capital deployment and would only be accelerated if there is a near-term uptick in municipal deals.

Alliant Energy Corporation (LNT/Overweight/\$57.42) (Kalton)

Plenty of Renewables & Distribution. LNT has a wonderfully straightforward story; but there were a couple of nuggets to note from EEI: (1) LNT's recently announced Clean Energy Blueprint in IA includes 400 MW of solar. Notably the solar qualifies for advanced rate making principles including an enhanced ROE (set for the life of the asset). LNT's IA wind farms receive an 11.0% ROE and recent precedent for IA neighbor MidAmerican suggest the solar spend could qualify for a 10.5-10.7% ROE. (2) Both IPL & WPL have been systematically undergrounding their electric distribution systems at a pace of 1.5-2.0% per year and currently sit at 25% undergrounding of LNT's 45,000 mile distribution system (skewed more toward WPL). Given strengthening storms (the recent derecho is an example) and the increasing focus on resiliency/reliability, policymakers may be open to LNT to accelerate the program (it sounds like early days, but mgmt. is evaluating). While we do not expect anything in the near-term, we think this remains an intriguing long-term investment opportunity. At an estimated cost of \$100,000-300,000 per mile, we think the undergrounding opportunity is several billion dollars. Again, the work is currently ongoing – but it could be accelerated and be another lever (along with generation transformation) to extend the targeted 6% rate base CAGR well beyond the mid'20s.

AVANGRID (AGR/Overweight/\$51.44) (Kalton)

EPS Outlook. Fresh off the heels of AGR's Investor Day, mgmt. helped fill in the blanks on a few of the assumptions underlying the EPS CAGR of 6-8% (off the adjusted '20 EPS base of \$2.10) and the '21 & '22 EPS guidance ranges. Our take: we think mgmt. has prudently erred on the side of conservatism particularly as it relates to the regulated utility operations. While the '21-25 guidance contemplates the NY utilities eventually reaching the allowed ROE levels, our sense is that the near-term EPS guidance reflects continued underearning as NYSEG & RG&E continue to ramp up vegetation management spend in order to improve system resiliency. We also think the outlook reflects a pragmatic approach to the pending PNM acquisition taking into account integration risk. However, we believe there could be potential to best AGR's baseline internal goals via (1) the potential for higher capex vs. PNM's current guidance and (2) modest cost savings (sharing of best practices, etc.). In terms of merchant wind pricing,

AGR's near-term guidance reflects flattish power and REC prices of \$20-25/MWh and \$10/MWh, respectively. Mgmt. remains highly committed to reducing merchant price exposure over time via recontracting.

Offshore Update. Mgmt. remains very excited about AGR's position in the nascent U.S. offshore wind market. In the near-term, Vineyard Wind is one of the three bidders into NY's pending RFP for up to 2,500 MW (AGR owns 50% of Vineyard Wind). The other two bidders are Equinor/BP and Ørsted/ES. Mgmt. noted that Vineyard's bid was for a large amount of capacity given the distance between the company's lease area (off the coast of MA) and NY – the electricity would land onshore in MA and then be wheeled to NY. The winning bid(s) are expected to be announced by YE'20.

Black Hills Corp. (BKH/Equal Weight/\$63.63) (Akers)

Next Stop: Growth Rate. BKH plans to provide an EPS growth target in conjunction with the YE update. The company believes there's good line of sight on the gas side given programmatic pipe investments while the electric side can be lumpy depending on IRP/RFP outcomes (likely continue to be somewhat conservative on that front). We expect the growth rate will be in the 5-7% range and we look to the July 2021 IRP filing in WY for additional insight on generation opportunities (could include discussion of carbon capture as WY remains supportive of the coal plants); there's also potential to expand the Renewable Ready subscription program.

ESG & LDCs (and M&A). BKH rolled out plans to reduce GHG emission intensity 70% by 2040 at the electric operations with 50% GHG reductions targeted at the gas utilities by 2035. On the gas side, CO is in the spotlight as there are ongoing discussions – including a recent Commission Informational Meeting – on what the LDCs can do to comply with environmental initiatives. While there are some parties pushing for electrification, BKH appeared encouraged that the utility stakeholders (including electrics) understand the affordability challenges of electrification along with customer choice considerations. As further evidence of the company's comfort with the gas outlook, mgmt. expressed openness to acquisitions within the company's existing jurisdictions. More specifically, BKH would evaluate CNP's AR LDC if it comes up for sale (though the company noted that the service territory is lower growth than its own AR utility).

CenterPoint Energy, Inc. (CNP/Equal Weight/\$24.07) (Akers)

What a Difference a Year Makes. We had a very constructive conversation with new CFO Jason Wells. He reiterated that the plan to deliver at the high end of the 5-7% growth rate (off 2020 Utility guidance basis EPS of \$1.12-1.20) already contemplates various headwinds/scenarios – these include the 2021 equity dilution headwind, the roll-off of equity returns on transition/securitization bonds at CEHE, one to two LDC sales, and potential strategic alternatives at ENBL that could require more parent debt to be allocated to the utility. Similarly, Mr. Wells confirmed that the \$16B capex plan and 10% rate base CAGR already account for the LDC sales (no negative re-basing ahead). On the O&M front, company has already identified meaningful cost cuts for the 2021/2022 time frame and, longer-term, envisions a culture of continuous improvement.

Strategic Update. We look to the 12/7 analyst day for details on the LDCs sale candidates and for insight into the direction on ENBL. On the latter, mgmt. clearly intends for utility earnings to be a bigger piece of the pie over time, but we still think an exchange of shares into a larger MLP (vs. outright cash sale) is a viable option in the review process. Shifting to the LDCs sales, we think a combination of OK, MS, LA and AR could be sale candidates or, on the bigger side, CNP could elect to sell OH. We do not expect the LDCs in TX or IN would be considered given the company's goal to reduce/simplify regulatory jurisdictions and, separately, we suspect MN may be a bit bigger than what CNP needs. The company indicated that the LDC sales are not driven by any long-term electrification concerns and reiterated that their states remain highly supportive of natural gas. That said, having a more electric-centric mix was mentioned as being consistent with the ESG focus, along with making renewable-enabling investments in TX and modernizing the generation fleet in IN (new plan envisions more utility-ownership of renewables).

CMS Energy (CMS/Overweight/\$67.01) (Kalton/Reeder)

On Point, As Expected. One did not have to meet with CMS management to know what they would say. And that is not a bad thing! Just the opposite. As CFO Rejji Hayes put it, CMS will give folks "as much certainty on the E as they can and let investors determine the P." It is that de-risked approach to the business – a utility franchise that sports an extensive capex backlog amidst a constructive regulatory backdrop (that is expected to remain steady going forward) and led by a proven management team with a track record of effective cost management in order to deliver consistent 7% EPS growth (why bother even

saying 6-8%!) – that results in an attractive risk-adjusted total return proposition. Then layer on aggressive decarbonization goals for the ESG-friendly crowd and what is there not to like – other than some (not us!) would argue the “P”?

Food For Thought. More COVID Shutdowns. In the event COVID concerns lead to additional restrictions, CMS does not believe commercial & industrial load will be nearly as hard hit as it was in Q2’20 given evidence that businesses have been largely effective at maintaining operations while protecting employees. That said, should headwinds occur that a residential load uptick would not fully offset, you guessed it – costs can be managed! June 2021 IRP Filing. Planning has begun but it does not sound like, at least on a preliminary basis, the plan will look all that different than the prior iteration, even in the context of a potential Biden administration, given CMS’s already aggressive stance towards decarbonizing the fleet (0% net emissions by 2040). Management is monitoring storage in terms of both the cost curve decline and increased efficacy but the urgency is not as great as other utilities in terms of balancing the intermittency of renewables given the Ludington Pumped Storage Facility essentially offers CMS more than 1 GW of battery-like capacity. Committed To Non-Regulated. CMS already has a small non-utility earnings mix (~7% with a guide to no more than 10%) which is where some other companies seem to be trying to get. Plus CMS runs the non-utility portion of the portfolio like a utility in terms of the predictability of earnings.

Consolidated Edison Inc. (ED/Equal Weight/\$81.72) (Akers)

COVID Impacts. We gained insight into the COVID impacts and impact on guidance. The \$0.05 reduction to the top end of the 2020 range (now \$4.15-4.30) reflects the continued inability to collect late charges and disconnection/connection fees. The bad debt expense triggered the materiality threshold, which allowed the utilities to book a \$50mm deferral, but that was already contemplated in the guidance range. Looking ahead, the company expects commercial fees could resume in Q1 and the timing on residential remains uncertain. ED is seeking approval to defer the lost revenue in a regulatory proceeding, which could provide upside to near-term EPS if approved.

ESG Focus. Mgmt. highlighted opportunities across the platform to advance de-carbonization efforts. These include the EE, EV-enabling and battery storage initiatives at CECONY (not all captured in rate base but all earn returns and, in some cases, incentives), direct investments in renewables at the Clean Energy Business, renewable-enabling electric transmission projects (including offshore wind) and ongoing efforts to reduce emissions from the gas utility operations. ED is also engaging with stakeholders in an effort to allow the utility to invest in large-scale renewables in NY – those discussions are ongoing. Regarding the Clean Energy Business, ED intends to utilize tax equity (a change from prior practice), but continues to see the annual capex run-rate around \$400mm. Shifting to the midstream investments, there was no change in tone from the ESG analyst day when mgmt. expressed an openness to divestitures. Specifically to MVP, we sense the company would wait for the project to go online in order to garner a better valuation. Lastly, when asked about potentially acquiring an LDC, mgmt. indicated that it may not be the most attractive opportunity given policy uncertainty going forward, particularly in the Northeast.

DTE Energy (DTE/Overweight/\$130.06) (Kalton)

Full Steam Ahead. Post the separation of GSP, DTE has the ability to be one of the fastest growing utilities within our coverage universe as the company targets 5-yr electric and natural gas utility earnings CAGRs of 7-8% and 9%, respectively. When we asked about upside to the already robust \$17B regulated utility ’21-25 capex plan, mgmt. suggested there was no shortage of capex opportunities and pointed to the company’s recent capex refreshes (generally result in 10-20% increases in cumulative 5-yr capex). Switching gears to GSP, mgmt. plans to get out in front of investors as much as possible in front of the planned spin-off in mid ’21. CEO Elect David Slater remains excited about the company’s organic growth prospects in both the Marcellus and Haynesville shale basins. We also asked whether Spenco would continue to be acquisitive post-spin. It sounds like this remains an open question as mgmt. continues to evaluate the post-spin strategy. In terms of market comparisons for Spenco, DTE views WMB and EQT as most closely resembling Spenco’s asset mix/profile, which suggests a valuation range of 8.5-10.0X EV/EBITDA (higher than the 8X multiple assumed in our price target).

Duke Energy (DUK/Equal Weight/\$97.31) (Kalton)

Pivoting to Growth. We thought Chair, President & CEO Lynn Good made a highly compelling case for DUK’s long-term EPS growth prospects and why it could trend towards the high end of the targeted 4-6% CAGR (off the preliminary ’21 EPS base of \$5.15). In our view, DUK’s messaging to investors has noticeably improved in ’20. We point to a focus and execution on cost management along with better

crystallizing (for investors) the long-term generation transformation rate base growth opportunities. Front and center is the recently filed Carolinas IRP, which contemplates substantial spend aimed at decarbonizing DUK's coal heavy generation fleet (hearings are expected to begin in NC during Q2'21). The initial spend is likely to center on solar/battery storage and natural gas-fired generation. Looking beyond the 2020s, the next leg of investment will depend on a number of factors including carbon policies and technology trends. We believe it is at this point that offshore wind could come into the fold (depending upon legislative support) – or not, if it makes more sense to continue down the solar/natural gas path.

Dominion Energy Inc. (D/Equal Weight/\$85.68) (Akers)

Execution, Execution, Execution. The message from CEO Bob Blue and CFO Jim Chapman was one of execution with a focus on regulated operations in premium jurisdictions. The company aims to deliver consistent EPS growth aligned with the 6.5% target and appears to be off to a solid start based on the Q3 update. Mgmt. did not express discomfort with the remaining 10-15% of non-utility exposure, noting that it is largely contracted.

Regulatory/Political Update. As it relates to VA, mgmt. acknowledged that it can (and will) get noisy on the political/regulatory front, but highlighted a history of supportive outcomes. The company expects there will be that same opportunity into the 2021 triennial review, particularly given the various items in the toolkit (write-offs, CCROs, etc). The company also expressed cautious optimism heading into the COP process at BOEM given strong local support and project-specific considerations (don't have the same fishery and shipping lane dynamics as other projects); from a timing perspective, being behind other projects may also be beneficial as D can gain insight from others' experience. Shifting to South Carolina, the immediate focus remains on the rate case. Mgmt. indicated nothing out of the ordinary thus far, but acknowledged some uncertainty with recent turnover in the commission (could make it more difficult to settle). Lastly, on the LDCs, D has not seen any anti-gas undertones in the company's service territories and remains very comfortable with those assets in the mix.

Edison International (EIX/Equal Weight/\$62.90) (Kalton/Reeder)

Making The Case That Wildfire Risk Is Actually Pretty Low. Management believes the wildfire mitigation plans, Public Safety Power Shutoff policies and improved containment/suppression strategies have vastly reduced the risk of a major California wildfire caused by investor-owned utility equipment. The '19 & '20 wildfire seasons are evidence of that. And planned future mitigation efforts – installing covered conductors, vegetation management with expanded clearances where possible, increasing situational awareness, etc. – should further the cause. Couple the lower event risk with CPUC-sanctioned wildfire insurance programs that are backstopped by the provisions of AB1054, including the liability cap and \$21B wildfire fund, means the risk of triggering substantial shareholder liability is pretty low. We note that PCG conveyed a similar message. While this may very well be the case, management acknowledged that it may still take a few more years of benign wildfire seasons for investors, ratings agencies and even insurers to fully recognize the progress that has been made.

Attractive Core Story That Is (Appropriately?) Overshadowed By Wildfire Risk. Excluding the wildfire risk, the underlying EIX story remains attractive with a long runway of transmission and distribution as well as renewable/storage investments needed to support the state's goal to de-carbonize the broad economy. CA regulators have generally been supportive of utility efforts over the years and the framework offers a plethora of cost recovery mechanisms that enable the state's utilities to earn at or above authorized levels. Even the timeliness of CPUC decisions may be improving under President Batjer. EIX's current plan results in a 6.5-7.5% rate base CAGR. Gating factors include the ability to simply execute on all of the work as well as maintain affordability for ratepayers by trying to keep average annual rate increases at or below inflation. Although the average electric bill in CA is roughly 30% below the national average and EIX's bills are roughly 30% lower than in-state peers, O&M efficiency efforts remain a priority.

Emera Inc. (EMA/Equal Weight/\$56.24) (Kalton)

Lots Going in FL. Tampa Electric, along with NEE's & DUK's FL electric utilities, are gearing up for base rate filings in 1H'21 for new rates beginning Jan '22. While we consider the FPSC to be a highly constructive regulatory body, rate cases – particularly in the midst of a weak economy – always create a little bit of uncertainty. With that in mind, we view Peoples Gas recent base rate settlement to be a positive data point. Key elements include allowed ROE of 9.9% with an 8.9-11.0% range. This compares with Tampa Electric's current ROE range of 9.25-11.25% - there is an argument to be made that electric

utilities should be awarded a premium ROE to gas LDCs given greater technology risk. Separately, Tampa Electric's growth runway remains robust driven by renewables and reliability spend under the new Storm Protection Plan. On the solar front, Tampa Electric is well into the first 600 MW of planned solar and has an additional 600 MW plus about 30 MW of battery storage planned by '23. Even with these additions, renewables will only represent 12% of Tampa Electric's power supply (natural gas makes up the high majority of the rest). EMA continues to evaluate the optimal resource mix going forward but the full expectation is that solar will grow meaningfully from the 12% level.

News from the North. In late September, Canada Prime Minister Justin Trudeau's Throne Speech (think State of the Union) addressed power transformation and, in particular, the Atlantic Loop transmission project. The Atlantic Loop would bring excess hydro and thermal power from Quebec and New Brunswick, respectively, to Nova Scotia and Newfoundland. If completed, the project would allow Nova Scotia to accelerate the planned retirement of coal generation from 2040 to 2030 (consistent with Canada's target). As a major transmission project that spans multiple regions, Atlantic Loop faces plenty of challenges (including cost allocation). That being said, it also represents a potential meaningful investment opportunity for EMA. Stay tuned!

Entergy Corp. (ETR/Overweight) (\$109.83)

Regulatory Updates. ETR's mgmt. team has been making the rounds quite a bit recently between the late September Investor Day, a number of fireside chats in October and the Q3 earnings call. So, we used our EEI meeting to catch up on a few recent developments in what has become a surprisingly straightforward and, in our view, highly compelling rate base growth story. On the regulatory front, ETR recently reached a partial settlement in E-AR's annual FRP filing – the separate request to extend the FRP has a 12/4/20 settlement deadline. In addition, E-LA recently filed a request to extend the company's FRP by three years (through '23) under largely the same terms as the existing FRP (ROE of 9.2%-10.4%). One difference to E-LA's FRP is a proposed distribution recovery mechanism for annual investment in excess of \$100mm. Mgmt. stressed that they have a long track record of achieving settlement agreements and we did not get the sense that there were any meaningful roadblocks to prevent settlements in AR & LA (LA is very early in the process). Switching to the pending SERI case at the FERC. ETR does not expect likely commissioner changes at FERC under a Biden administration to have an impact on the resolution (positive or negative). Mgmt. thinks we could gain clarity on the ROE/equity ratio in 1H'21 (already taken into account in ETR's EPS guidance) but the timing of resolution on the broader policy question around uncertain tax positions remains unclear. While mgmt. remains of the opinion that they have a strong argument, should the FERC adopt the ALJ recommendation it presents a \$0.15-0.20, or 2-3%, risk to annual EPS power before potential mitigation efforts.

Essential Utilities (WTRG/Overweight/\$46.37) (Reeder)

DELCORA Discussion. We devoted a good deal of time to the pending DELCORA transaction as we believe the current share price does not, perhaps appropriately, reflect the considerable long-term benefits from the deal including the meaningful capex needs that fall beyond the current 5-year forecast as well as the likely substantial wastewater tuck-in deals that could transpire in the area. We had three main takeaways. (1) Investors should not rule out the prospects for a settlement in the legal challenge and perhaps optimism in this regard is in part attributable to the confidence that management has conveyed regarding being able to close the deal around the end of Q1'21. (2) Management is pretty comfortable with the PaPUC approval process based on the concerns expressed by the intervening parties as well as previous experience with FMV deal approval in the state. (3) Assuming 1H'21 closure, DELCORA will start earning its full keep in '22 as it will be incorporated in the next PA water/wastewater rate case filing.

Other Notables. Next PA Water Rate Case. Aqua Pennsylvania is likely to file for new rates during 2H'21 with the new rates effective perhaps late 1H'22. Management continues to think PA water rate cases will occur at a 3-year cadence going forward. M&A Strategy. WTRG continues to be focused on bringing other water/wastewater tuck-in deals to bear, including in states beyond PA and IL. OH perhaps offers the most near-term opportunity out of the "new" states. The deal pipeline is robust and water/wastewater tuck-ins are definitely the focus as the company looks to continue to capitalize on the somewhat accelerated pace of municipal deal activity/interest in the sector. Management also reiterated a low (to no?) likelihood of doing another gas deal in the near-term. Guidance Refresh. Finally, the guidance refresh could come as early as January (before the YE2020 call in late February) and is expected to include not only '21 EPS but also refreshes to the 3-year EPS CAGR and capex outlooks.

Evergy, Inc. (EVRG/Overweight/\$57.30) (Akers)

Fake News. EVRG issued a statement mid-EEI confirming that there has been no change in strategic direction since the decision to pursue the Sustainability Transformation Plan (STP) and that there is no outstanding offer or bid for the company. That followed a Reuters report that NEE made an offer in the mid-\$60s and a statement from Elliott that EVRG should reengage with NEE. For its part, NEE suggested investors not believe everything that shows up in print. All things considered, there's no reason to think there is merit to the Reuters report at this point.

Path Ahead. Mgmt. is focused on executing the STP with a focus on a modern T&D system and kick-starting the ESG aspect of the story, which includes the de-carbonization of the generation fleet. The plan will require supportive regulation, which is a key consideration in the CEO selection process (someone that understands the importance of having strong regulatory relationships) – CEO decision still expected by YE. The cost cutting initiative is also a key component of the story including its role in mitigating customer rate increases. Shifting to capex, we were encouraged to hear that the ~\$700mm of renewable (solar) capex in the plan is not dependent on having securitization in place. We look to the 2021 IRP filings for additional insight into the generation outlook.

Eversource Energy (ES/Overweight/\$94.42) (Kalton)

CapEx Drivers. We expect ES's upcoming capex refresh in conjunction with Q4 earnings will be more of the same – higher and supportive of a 5-7% EPS CAGR from the base business (ex-offshore wind). ES has already noted a few things that could impact the plan such as (1) the inclusion of Eversource Gas Company of MA (Columbia Gas), which we think could be additive to ES's rate base CAGR, (2) electric transmission including new reliability projects in southeastern MA totaling \$175mm and (3) new MA solar legislation that, if passed (likely), would allow NSTAR Electric to develop an additional 230 MW of solar (~\$400mm opportunity). It remains unclear whether ES will have clarity on the CT AMI program in time to include it in the refresh. In addition, mgmt. remains optimistic that the MA Grid Mod Plan (2022-2024) will be supportive of AMI. We think the potential CT & MA AMI programs represent a ~1B investment opportunity over a 5-7 year period.

Other Tidbits. (1) Offshore Wind – despite (not unexpected) permitting delays, ES remains bullish on the company's offshore wind program noting that any negative impact of the delays on returns should be mitigated or offset by the positive impact of being able to use larger turbines along with favorable vessel developments afforded by the extra time. In addition, mgmt. thinks President-elect Biden's administration could help speed the process up at BOEM. ES/Ørsted are one of the three bidders participating in NY's offshore wind solicitation for up to 2,500 MW of capacity (a decision is expected by YE'20). While the companies' award in the 1st auction (the 880 MW Sunrise project) bodes well for pending auction, mgmt. emphasized bidding discipline considering there are plenty of other RFPs upcoming in the region (RI, MA, NY). (2) Connecticut – following the public/political outcry to ES's performance in the immediate aftermath of Isaias, it appears that cooler heads are prevailing. PURA's PBR docket will sequence in mid '21 and ES welcomes the opportunity to work under a PBR scheme. ES is also working to insure better storm response with a focus on outage duration and customer communication.

Exelon Corp. (EXC/Overweight/\$43.84) (Kalton)

All About the Breakup. EXC's recent proclamation that the company is in fact in the early stages of evaluating separating ExGen from the regulated utility operations took center stage at the company's EEI meetings. We entered the conversation somewhat skeptical that EXC would go down the break-up path nearer-term given our base assumption that IL will pass constructive nuclear-related legislation in the Spring '21 session and that, by doing so, it might prove diplomatically difficult for EXC to immediately turn around and effectuate a spin (or sale). We exited the conversation less skeptical as mgmt. downplayed – to some degree – potential policymaker resistance. In our view, there is a clear industrial logic to separating the businesses (investors prefer pure play regulated utilities, the separated companies will likely have better strategic flexibility, etc.). In addition, once the genie is out of the bottle it is hard to put back. Even though mgmt. was careful to caveat the evaluation process – noting the unique complexities of separating the companies – once the notion is put out into the world the share price embeds an expectation.

IL Clean Energy Update. EXC indicated that there was strong momentum for clean energy legislation heading into the Spring '21 session and noted that, thus far, Gov. Pritzker's carbon price proposal has not seemed to gain much traction. Instead, it sounds like either the Fixed Resource Requirement (FRR) option could still be in play and/or likely changes to the MOPR under a soon-to-be Democrat regime at FERC could provide the Illinois legislature with additional tools to support nuclear. While IL clean energy

legislation conjures up images of Lucy pulling the football away from Charlie Brown, we remain of the strong opinion that the legislature will take the necessary action to keep the state's nuclear fleet operational.

FirstEnergy Corp. (FE/Overweight/\$29.79) (Kalton)

A Tough Road Ahead. This was not an easy EEI for FE's mgmt. team coming on the heels of former CEO Chuck Jones' recent termination for code of ethics violations as part of an ongoing internal investigation into FE's potential involvement in the House Bill (HB) 6 bribery scandal. In addition, it sounds like it could be some time before we get clarity on both the pending FBI investigation and FE's internal investigation (mgmt. hoped to have further updates on the internal investigation by the Q4'20 earnings release in early '21). Under this backdrop, we thought Acting CEO Steve Strah did a commendable job in our meeting and came across as very direct and authentic in discussing the serious issues confronting FE. That being said, regaining the trust of FE's constituents (regulators, customers, investors) will not be an easy task and it remains an open question as to whether or not Mr. Strah will be able to pull it off given his lengthy tenure within the company. We also remain mindful that the investigations are ongoing and it is far from clear to what extent FE was involved in the HB 6 scheme – although, Mr. Jones' termination along with several other recent executive terminations and departures from the firm point to some level of wrongdoing.

OH ROEs. FE provided a bit more color on the age-old question of the OH utilities' earned ROE. Per the SEET test (in legislation), FE is allowed to use book equity in the ROE calculation (FE's book equity is higher than equity rate base due to the inclusion of \$2.2B of goodwill related to an acquisition in the 1990s). This, along with some other adjustments, helps explain why FE's SEET ROE always results in a lower ROE than what the rate base math suggests. FE plans to provide even more detail in conjunction with the Q4 earnings release. Keep in mind, the OH utilities' current ESP runs through 5/31/24.

Hawaiian Electric Industries (HE/Underweight/\$37.05) (Reeder)

Solid Footing Despite COVID. Despite the challenges presented by COVID, particularly in HI where tourism is essentially the lifeblood of the economy, HE is in pretty solid shape and remains focused on helping the state reach the long-term renewables and decarbonization goals. The utility benefits from decoupled rates and COVID expense deferral accounting. The bank's conservative philosophy and strong starting position has allowed it to "bend but not break" under the challenges of COVID. As such, there remains no need for incremental equity at the holding company nor a need for the holding company to invest any capital into the bank, 2021 refinancing needs have been prefunded and HE is committed to maintaining an investment grade structure. As for the dividend, management does not foresee any risk to the current level and reiterated an intent to grow it in-line with earnings over the long-term while maintaining a payout ratio that is commensurate with peers (60-70%).

Here Comes The Sun? The bank's low cost of funds and ability to offset some of the loan loss provision spike with strong mortgage re-financing activities and opportunistic securities sales have kept the bank safely profitable. And management's recent comments regarding the performance of the loan portfolio and the potential for underlying economic conditions to improve as the state recently started re-opening its doors to tourists give reason to believe the worse of the bank could be behind it. While businesses in HI are struggling, customers and the communities served have been resilient, the bank is staying very close to their customers and the high asset quality in the state provide a safeguard. Management reiterated a belief that the bank is well provisioned after Q3 and that the provision is determined based on forward looking information. As such, if tourism gradually returns, another widespread outbreak of COVID is avoided in the coming months (no new shutdowns) and an effective vaccine becomes widely available in '21, it is possible that a good portion of the provision recorded in 2020 could reverse as the economy improves. 76% of deferred loans have already returned to payment and, typically, if there are 6 months of good performance, the loans are eligible to be upgraded and the associated provision reversed.

PBR Me ASAP? The utility continues to believe the transition to a 5-year Performance Based Ratemaking (PBR) framework at some point in '21 will be a net positive in terms of ability to earn close to the allowed ROE. Once implemented, there may be only 30-40 bps of structural regulatory lag remaining. That said, while there seems to be many areas of consensus that have developed amongst parties throughout the PBR proceeding, the devil will be in the details ultimately approved by the commission particularly as they relate to things like how the annual revenue adjustment mechanism works, what the consumer dividend might be and the type and magnitude (collectively up to 100-200 bps of ROE?) of the new performance incentive mechanisms (PIMs). Execution will be critical which also requires cost efficiency improvements, including delivering on the committed \$25M of savings by 2022.

IDACORP, Inc. (IDA/Equal Weight/\$94.80) (Akers)

Same (Good) Story Near-Term. Mgmt. continues to see strong growth in the Idaho Power Company (IPC) service territory driven by in-migration from surrounding states along with new large load customers. Combined with a strong cost containment efforts, low borrowing costs and creative regulatory solutions, this has allowed IPC to stay out of rate cases while managing to earn reasonable ROEs and deliver on financial targets.

Rate Base Growth Opportunities Brewing Long-Term. Over time, customer growth and coal retirements will drive incremental resource needs. There's also the opportunity for IDA to take over BPA's stake in the Boardman-to-Hemingway (B2H) project and, possibly, to offer a green tariffs that could lead to renewable ownership opportunities over time. Lastly, IDA has been clear that once the new Hells Canyon license is issued (2022 or later), that will result in higher capital and operating expenses. While some of these items could be handled via regulatory solutions (rider-type treatment), the bigger items may require a full vetting in a rate case.

MDU Resources Group, Inc. (MDU/Equal Weight/\$24.99) (Akers)

Strategic Update. When asked about the current trend toward pure play models in the utility sector, mgmt. highlighted (1) MDU's general focus on infrastructure, which spans electric/gas utilities, pipelines and construction and (2) a successful track record since divesting the E&P asset. On the M&A front, construction activity has slowed but the company remains active in the pursuit of acquisitions. Mgmt. is also open to adding scale at the regulated utilities including LDCs so long as it makes economic sense (accretive, credit supportive, cost and/or capex levers, etc.). Of note, S&P already raised the FFO/Debt threshold to 22% from 15% due to the non-regulated EBITDA contribution so while utility acquisitions would help the business risk profile, MDU is comfortable with the revised thresholds and, in fact, has a healthy cushion on FFO/Debt.

Construction. Mgmt. disclosed a ~50/50 breakdown between aggregates and vertically integrated activities (hulling, converting to ready-mix, delivering, laying, etc.) within the Materials segment; this is more in-line with peers Summit and Granite vs. pure plays Vulcan and Martin Marietta. Regarding the decline in backlog reported in Q3'20, the company did not appear overly concerned and pointed to the Q1'21 bidding season as the next key data point. Positive drivers include the extension of the FAST Act budget and favorable housing trends. Shifting to Services, mgmt. has been encouraged by the strong performance through the pandemic. While new hospitality projects in Vegas could slowdown, there is line of sight into 2021 from existing projects and, more broadly, MDU is seeing strong growth in the high tech sector, chip manufacturing and data centers along with healthy electric T&D spending trends.

Pipeline. Mgmt. highlighted the largely take-or-pay nature of the pipeline operations and noted that gas volumes are bouncing back in the Bakken (~85% pre-pandemic levels). The company expressed confidence that the revised agreements with shippers on the North Bakken Expansion project are firm and that the project remains on track to secure FERC approval and meet the late '21 in-service target. When asked about threats from de-carbonization, mgmt. expressed skepticism that natural gas can be reasonably replaced on a btu equivalent basis and highlighted gas as a key backstop for renewables.

NextEra Energy (NEE/Overweight/\$77.54) (Kalton)

Chasing Our Tails. During EEI, Reuters reported that NEE had made an offer to acquire EVRG for \$66/sh. As the story evolved, it became clear that the bid was likely made many months ago while EVRG was in the midst of a strategic evaluation (ultimately, mgmt. and the Board decided not to pursue a sale of the company). For its part, NEE's mgmt. simply indicated that investors should not believe everything they read and intimated that there could be ulterior motives behind the reports. Does NEE remain interested in regulated M&A? Yes, but per our EEI conversation it remains very much a "want" vs. a "need" and the company will only move forward if a transaction checks all the boxes (including EPS accretion factoring in the balance sheet). Looking ahead to '21, the Santee Cooper privatization opportunity in SC remains a possibility as the legislature is expected to take up the issue again in the general session (typically runs through May). Recall, NEE's bid was deemed to be the best option should the legislature decide to sell Santee Cooper. While we tend to think a Santee Cooper privatization is unlikely, it is worth paying attention to heading into '21. We continue to think an acquisition could be immediately 3%+ accretive to EPS and up to 5% within a few years.

NEER is in the Cat Bird Seat. We spent much of our time discussing NEER's competitive advantages along with the overall size of the renewables pie. We always want to remain mindful of the risk of intensifying competition in the renewables arena as energy players increasingly look towards wind & solar

as growth avenues. That being said, we find ourselves agreeing with NEER President John Ketchum in that the company has built such a competitive moat that it will be difficult for newcomers to enter the space and effectively compete. Developing renewables is not as easy as simply buying some equipment and setting up a wind or solar farm. There are all kinds of considerations related to optimal sites, access to transmission, technical expertise, etc. that NEER has spent decades perfecting. Not to mention NEE enjoys enormous scale benefits related to vendor relationships, cost of capital, etc. As for the size of the market – mgmt. continues to believe EIA’s projection for 30% wind/solar market share by 2030 as a percent of U.S. power supply (vs. ~10% currently) will prove to be conservative. And green hydrogen has the potential to materially accelerate renewables development looking out beyond ‘30 – it is clear that NEE sees a lot of potential for hydrogen and we expect (small) announcements on this front will pick up steam in the coming months and years.

NiSource Inc. (NI/Overweight/\$24.64) (Akers)

Sensitive to Financing Concerns. No change to the financing plans laid out at the analyst day, but mgmt. was very responsive to concerns on dilution and the equity overhang. We look to the 2021 financing including \$600-1,000mm of equity-rich securities (sounds like leaning toward convertibles) as the first major data point informing 2022-2023 block equity needs (currently \$500-700mm). Mgmt. also reiterated an openness to portfolio optimization (asset sales) if it is in the best interest of shareholders. We expect the company will take some time to evaluate options and we look to CNP’s upcoming LDC sales as a directional data point on gas utility valuations, which could be instructive for NI (and the rest of the combos/LDCs). Separately, we note that NI’s financing plans do not include the ongoing \$200-300mm of ATM equity needs after 2023 as investments – including the renewable program – are recognized in rates and generate cash.

Perspective on Gas. Mgmt. opined that the valuation de-rating of the LDCs is overdone given both strong demand for the product and readily available low cost supply. The company also sees strong policy support in its remaining service territories and highlighted the high energy content requirements of winter peak energy needs. NI believes it is not a question of whether the distribution pipe system will be used and useful in the future, but rather what will be flowing through the pipes (RNG, hydrogen, etc.).

NorthWestern Corp. (NWE/Overweight/\$59.30) (Reeder)

’21 Guidance. Management offered preliminary ’21 EPS guidance of \$3.40-3.60 but will likely tighten the range to the typical \$0.15 variance with the YE’20 report in February. We got the sense the extra \$0.05 in the preliminary range was subtracted from what would have otherwise been the bottom end if not for COVID-related uncertainties. The midpoint of the ’21 range is 4% above the midpoint of the revised ’20 range (\$3.30-3.45) but is overall consistent with the original ’20 range (\$3.45-3.60). It reflects a 0.7-1.0M increase in the diluted average shares out from ’20, continued improvement in operating expense levels and decoupling is expected to be implemented at the MT electric utility in mid-’21. Lastly, NWE indicated an expectation that the dividend will be at the upper end of the 60-70% targeted payout ratio – if at 70% while continuing the recent \$0.10 annual dividend increase trend, it implies ’21 EPS of \$3.57.

Capex Budget Increased. NWE rolled out a \$2.1B investment plan over the 2021-25 period. The budget represents a \$300M increase over the previous 5-year plan and is distributed fairly evenly across the states and utilities (electric vs. gas) relative to each’s size. Management characterized the projects as mostly small and relatively low execution risk. The budget is driven by gas and electric transmission and distribution work to accommodate growth across the systems, deal with the shutdown of fossil resources and comply with regulations as well as things like hydro generation facility upgrades and technology (including automated metering infrastructure). The \$400M+/year capital plan puts NWE at the midpoint of the 3-6% EPS CAGR target and management noted the growth could be somewhat lumpy based on rate case timing. In addition, it sounds like external equity will be needed fairly regularly to fund the budget and maintain an FFO/Debt ratio in the 14-15% range.

MT Generation Still Upside – And Growing? NWE has bid several projects into the pending 285 MW RFP and reiterated that the \$200M capex bogey that they have talked about is based on a level of comfort of what they might win – winning all would be more than \$200M. The 3rd party administrator has yet to notify NWE that any of their projects have been eliminated from consideration and management remains confident that their projects are well positioned given the RFP specifications around long duration, flexible capacity. If a NWE project wins, the MT pre-approval process allows AFUDC to be earned as the capital is deployed but then that turns into a cash return with a project-specific ROE once it enters service. The recent termination of the Puget deal (for an increased stake in Colstrip) restores the full 725 MW capacity hole that NWE intends to ultimately fill through multiple RFPs. And the risk of the Colstrip facility shutting down this decade (vs. NWE’s 2043 planning assumption) seems elevated, perhaps even more so by

Talen's announcement this week to shut down coal capacity in favor of a more ESG-friendly strategy, which has the potential to add another 222 MW deficit to NWE's MT portfolio.

MT Regulatory Environment. Republicans swept all state offices and the three Montana Public Service Commission (MPSC) elections. While party affiliation has never been a guarantee of constructiveness in MT, we are hopeful that the new MPSC will continue what seemed to be a gradual improvement in the challenging regulatory environment over the last 2 years prior to more recent adverse decisions around COVID expense recovery as well as Colstrip replacement power costs. We also believe it bodes well for the recognition that natural gas needs to play a role in the new generation capacity picture versus some of the Democratic candidates that were more fervent renewables supporters. We were somewhat concerned by the MPSC comments earlier this year around NWE's supply plan perhaps being overly reliant on gas – particularly since we believe NWE's self-build advantages are likely for gas-fired generation.

OGE Energy Corp. (OGE/Overweight/\$33.95) (Akers)

Feeling Good. CEO Sean Trauschke struck an optimistic tone on the utility operations, particularly on sales trends. Commercial load flipped to positive in September (vs. year ago period) and mgmt. expects some of the uptick in residential will be sustainable based on work-from-home trends. The company is also bullish on industrial activity and expects Public Authority sales (mostly schools) will pick-up as students return to the classroom. Mgmt. is hopeful that the pre-COVID momentum toward customer growth >1% will return. On the regulatory front, OG&E is focused on executing manageable, straightforward proceedings with a continued focus on customer bills. Lastly, the company plans to file an IRP by October 2021, which could shed light on resource needs. We do not expect any major project revelations, but rather a series of smaller investments (plant conversions to gas and solar additions at the distribution level) along with EE and DR. Overall, things seem to be moving in a positive direction.

Strategic Comments. Mgmt. continues to play its hand close to the vest as it relates to ENBL. The team fully acknowledges the public market dynamics (negative sentiment toward midstream, preference for pure plays) and believes the midstream exposure has overshadowed the utility story. When it comes to potentially selling/swapping into a bigger MLP, OGE considers the aforementioned market/valuation dynamics along with cash flow and credit implications. Separately, when asked about the company's interest in acquiring an LDC (in the context of CNP potentially selling an LDC or two), mgmt. confirmed that gas utilities are not on the company's list.

PG&E Corporation (PCG/Equal Weight/\$10.71) (Kalton)

Wildfires Still Top of Mind. First, the lack of a new Safety Certificate from the CPUC remains a little bit disconcerting. That being said, PCG stressed that the prior safety certificate remains in effect until a new one is issued and it is not necessarily uncommon that the issuance has slipped beyond 90 days. In addition, thus far there have been no communications from the CPUC to suggest any major issues with PCG's request. Without a valid Safety Certificate PCG is not afforded the protections of the liability cap under AB1054 (limits wildfire liability to 20% of electric T&D equity rate base, or ~\$3B currently). Safety Certificate aside, PCG highlighted substantial progress on wildfire risk mitigation efforts and improvements in the PSPS program vs. '19. Combined with improved containment/suppression strategies, the risk of catastrophic wildfires caused by utility-owned equipment appears to be declining. That being said, we think it may take a few years of benign activity to substantially improve investor confidence. Not surprisingly, mgmt. indicated that the legislature still has little appetite to address the inverse condemnation (IC) doctrine. While AB1054 provides substantial protections, the state's electric utilities still face significant risk relative to utilities in other states as a result of IC. On the capex front, there is no shortage of investment needs as PCG deploys capital to improve grid resiliency, mitigate wildfire risk and support CA's ambitious GHG emission goals. Last, it sounds the like the search for a new CEO is winding down with an announcement expected by YE'20.

Pinnacle West Capital Corp. (PNW/Overweight/\$89.59) (Akers)

ACC Profile. The 2020 ACC election resulted in Republican Lea Márquez Peterson retaining her seat with the other two open seats to be filled by Republican Jim O'Connor and Democrat Anna Tovar. It appears that three of the five Commissioners are supportive of a de-carbonization agenda (Peterson, Tovar and sitting Commissioner Kennedy), which aligns with PNW's de-carbonization plan. Favorably, this agenda would appear to conflict with sitting Commissioner (and possible future Chairman) Olson's desire to pursue deregulation. While we reserve judgement until policy discussions are underway and, more so, rate case decisions are issued, our initial view is favorable given both a pro-clean energy and Republican majority. Beyond the ACC make-up, we are encouraged by PNW's focus on improving the company's

position in the state via consensus-building and improved customer service/experience. We think improved regulatory relationships and outcomes would address a key investor concern and allow greater focus on the clean energy growth story, strong balance sheet, effective cost management and strong customer growth.

Rate Case Update. APS filed rebuttal testimony on 11/6 with three key updates: (1) a \$15mm reduction to the \$184mm rate request reflecting a reduction in the ROE request (to 10.0% from 10.15%), a lower fair value increment (to 0.8% from 1%) and updates to the fuel rates; (2) a proposed Advanced Energy Mechanism (AEM), which would provide rider recovery for clean energy investments and incorporate the DSM and LFCR updates (simplification); and (3) a Coal Community Transition proposal, which is a comprehensive plan to address the Four Corners coal retirement along with various economic development initiatives for the Navajo Nation. It is our understanding that the Navajo Nation is supportive of the coal transition plan along with the AEM. While it is yet to be seen whether other stakeholders support the AEM (key to mitigating regulatory lag and extending the time between rate case filings), we view the updated testimony as an incrementally positive step.

PNM Resources (PNM/Equal Weight/\$49.09) (Reeder)

AGR Deal Update. It was not for a lack of effort but we were unable to squeeze out much additional insight regarding how the Avangrid deal (announced 10/21) came about. Management reiterated that a very strategic type of approach was taken to find the right strategic partner for PNM and the communities served. Therefore it was not solely about the price offered. More details will be included in the proxy which is expected to be filed around Christmas. Management believes the prospects of receiving what PNM would deem to be a superior proposal are quite low (again, not just about price) and pretty much shut the door to the prospects of a financial suitor emerging (as was the case in the recent acquisition of PNM's neighbor El Paso Electric) given the need for an acquirer to be strategically aligned. The response to the deal announcement has been positive in NM (governor, legislature, environmental community, etc.) based on AGR's commitment to renewables and the environment and management noted that NM regulators have never turned down a merger application. Both NM and TX are net benefit states and generally those conditions are satisfied by way of rate credits which AGR/PNM stand prepared to offer. Merger approval applications will likely be filed by the end of the month.

Other Business Updates. Constitutional Amendment Passage. The NM regulatory body will be transition to a 3-person appointed commission in 2023 as the amendment passed. Management believes it will not only improve the predictability/stability of the regulatory decisions in the state but also the quality. Therefore, NM has the potential to improve from the commonly held investor notion that the regulatory environment is below average. Four Corners Deal. Management believes NM regulators will be hard pressed to turn down the recently announced deal for PNM to exit Four Corners early given the customer savings associated with it. EPS Power. No real changes in the EPS power of the company looking forward. 2021 EPS power is \$2.30-2.40 however PNM will be rolling out guidance in December taking into consideration the latest thoughts around COVID, cost savings and the lack of rate relief or decoupling (both of which were anticipated at one point in '20 to be of help to '21 EPS). Beyond '21, PNM will be deferring to AGR to communicate the growth.

Portland General Electric Company (POR/Equal Weight/\$44.57) (Akers)

Mgmt. Bullish on Growth. CFO Jim Lobdell highlighted that growth in POR's service territory has proven resilient with healthy in-migration trends, which may be further helped by COVID as people have more flexibility to work from desirable locations, and continued growth in high tech. This led the company to bring back capex on the Q3 update that was previously removed from the plan. The company still expects 1% sales growth long-term, which could be bolstered by electrification efforts (transportation, but also considering new premise incentives for electric heating, etc.). Separately, Mr. Lobdell spoke of a continued focus on cost controls including greater use of technology and coal unit retirements among a slew of other efforts.

In addition to service territory growth and expense controls, the company's 4-6% EPS growth target is driven by investment in aging infrastructure along with the Wheatridge Renewable Energy Facility. Looking ahead, there could be additional opportunities for generation ownership (upside to the plan) related to one or two RFPs planned for 1H'21 to procure 150 average MW (~450 MW nameplate) of renewables and 700 MW of capacity. Lastly, discussions are ongoing in phase 2 of the Green Future program, which could potentially include utility ownership (TBD).

Regulatory & Other Updates. There was no new information on wildfires (still no evidence that POR's equipment ignited any fires) and the trading loss (investigation ongoing). On the regulatory front, mgmt.

continues to evaluate the timing of the next rate case and highlighted positive data points on the COVID deferral and wildfire deferral, which was approved in ~30 days. While the company still sees 85-90 bps of structural lag related to unrecoverable expenses, there are other areas which could be addressed, such as the PCAM (tightening the deadbands?), storm balancing accounts and the decoupling mechanism, which is set to expire after 2022.

PPL Corporation (PPL/Equal Weight/\$29.41) (Kalton)

U.K. Sale & Go-Forward Strategy. The sale of the U.K. utilities continues to progress and mgmt. remains encouraged by the level of interest. An upcoming data point regarding U.K. decarbonization goals will provide parties with guidance into the expected level of long-term investment in the electric distribution systems (arguably a more important driver of value than near-term allowed returns). Timing remains 1H'21 for both the transaction announcement and potential completion given typically quick regulatory approval processes in the U.K. (1-3 months). Post sale, mgmt. is keeping their options open with regard to use of proceeds with share repurchases, regulated M&A (preference towards electric) and additional contracted renewables investment (via Safari Energy) all possibilities.

Kentucky Update. PPL recently filed a notice of intention to file for base rate relief for the KY utilities starting 7/1/21. The filing will include a proposed sur-credit that will be used to mitigate the rate impact on customers via the use of regulatory liabilities. Separately, we spent a good deal of time discussing upside capex opportunities including AMI (a ~\$300mm program that PPL intends to revisit with the Kentucky PSC) and generation transformation. The KY utilities own 3,800 MW of coal-fired generation that was developed between 1971-1984 and could be ripe for retirement over the next 10-20 years. PPL characterized the PSC as being most concerned about cost and reliability and is not wedded to fuel type when considering asset replacement proposals. Mgmt. further noted that the economic proposition for solar/battery storage is not quite there (yet).

Public Service Enterprise Group Inc. (PEG/Overweight/\$60.88) (Kalton)

Lots to Talk About. (1) Non-nuclear generation sale – mgmt. characterized initial interest in the proposed sale of the fossil fuel generation fleet and solar portfolio as healthy (private equity interest). The solar portfolio is expected to be put up for sale this month with the fossil fuel plants to follow in December. Bids are due in Q1'21 with a sale expected to be announced in mid '21. (2) CEF Filings – mgmt. is optimistic that the New Jersey BPU will bless the \$600mm AMI proposal. Conversely, it is unclear to what extent the BPU wants regulated utility involvement in the proposed EV (\$300mm) and battery storage (\$100mm) programs. Decisions are expected in Q1'21. (3) Stimulus Investment – PSE&G is engaged in early discussions with the BPU Staff around a potential acceleration of Gas System Modernization Program spend and/or electric reliability spend. Should the talks advance, we could see a formal filing within the next 3-6 months. (4) Transmission ROE Discussions – it sounds like the parties (PSE&G, the BPU Staff and the Consumer Advocate) despite being close are currently at a stalemate. From here, either the stalemate breaks or the Staff/Consumer Advocate could launch a formal challenge at FERC (likely a multi-year process). (5) Offshore Wind – PEG expects to make a decision as to whether or not to take up to a 25% interest in Ørsted's 1,100 MW Ocean Wind project by the end of November. We continue to think it is likely that PEG participates. (6) Nuclear – not much new here. PEG has made it clear that the \$10/MWh ZEC payment will not be sufficient to keep the company's nuclear units operational longer-term. We expect more clarity on this issue by mid/late '21.

Sempra Energy (SRE/Equal Weight/\$133.64) (Akers)

Strategic Capital & LNG. Based on the Q3 call and mgmt. comments at EEI, it appears likely to us that SRE is looking to sell an interest in the LNG portfolio. This would serve two complementary purposes: one, to get an attractive valuation marker for the LNG business; and two, to keep the business mix more heavily weighted toward the regulated utility operations (improves perceived risk profile, which is important to both investors and rating agencies). We do not think a spin of the LNG operations is timely as it provides a competitive advantage to operate under the SRE umbrella. Shifting to Mexico, mgmt. remains bullish long-term while acknowledging challenges presented by the current administration. The company views ECA as a critical asset in Mexico and expressed confidence that the export permit will be received this month with FID by year-end. More broadly, the tone on LNG was constructive as mgmt. indicated that conversations with potential off-takers have picked up and pricing has improved.

Gas in CA. The company expects the friction between SoCalGas and certain environmental interests could continue near-term, but (1) noted that regulatory outcomes have been very supportive of continued investment in the gas infrastructure and (2) expressed confidence that there's a significant long-term role

for the gas LDC infrastructure in a clean energy future (RNG, hydrogen, carbon capture). SoCalGas is making a significant push in RNG and noted that while it appears expensive, costs should be driven down with scale and additional investment (similar to solar and wind in their infancy). We did not get the sense, however, that SRE would look to acquire additional gas utility assets as the company prefers to position the portfolio more directly in alignment with the electrification trend.

Southern Company (SO/Equal Weight/\$63.92) (Kalton/Reeder)

The Here and Now. With the finish line nearing on Vogtle Unit 3, it is clear that SO is not taking success for granted. The three risk areas to get to the next major milestone of hot functional testing, in order of increasing importance, are (1) sub-contractor work, (2) bulk electrical work and (3) paperwork – making sure the “as built” condition of the modules conform to the engineering plans so that the requisite ITAACs can be verified by the NRC. If for some reason the inspections, tests, analyses and acceptance criteria (ITAAC) process would uncover the need to submit a license amendment request (LAR), it could potentially take a few weeks to resolve – we believe it is important to note that the NRC is highly supportive of the project as it enters the final stages and has vowed to work expeditiously on their end. That said, management does not believe a LAR is any more likely than some sort of metallurgical condition popping up as the hot functional test ramps up the temperature of the plant components. Overall, management is confident heading into hot functional testing and the overall ability to bring Unit 3 in-service before the end of November '21. And Unit 4 should go better than Unit 3.

Beyond New Nuclear. Assuming the remainder of the new nuclear project goes relatively smoothly, SO is primed to deliver 6%+ EPS growth and this higher growth rate could be fleshed out as part of the YE2020 update. Excluding the “debt only” return penalties imposed by Georgia regulators when the higher price tag and longer schedule had to be recertified, SO has been growing at like 6%. But once both units go online it is projected to add about \$200M of net income and generate an additional roughly \$800M of cash flow. This should put SO in a position of strength which could include accelerating the dividend growth, upping the capex forecast (assuming rate affordability can be balanced) and/or further improving the credit metrics/rating. In other words, SO could support \$8-9B/year of capex without the need to issue equity. A big driver of rate base growth could be early retirement of most of SO's large coal-fired plants and replacing them with renewables and gas as the O&M savings could serve to keep customer bills flat. Embarking on this sort of plan would require the buy-in of AL, GA & MS, including state regulators, and could be propelled forward under a Biden administration with a Republican senate where carbon reduction goals are accelerated.

Growth Outside The Core Regulated Franchises. Three things came up. (1) Renewable deals that meet Southern Power's return hurdles are tough to come by right now. (2) Management did not entirely rule out buying another gas LDC at the right price. (3) SO has clearly been exploring the idea of a synthetic approach to municipal/gov't owned system M&A. SO would lend expertise by operating the system and perhaps even allow access to SO's pool of assets as scale matters in the transition from fossil to zero carbon. This type of approach could overcome the challenge inherent in buying municipal assets including the fact that they are 100% financed with cheap debt and the loss of local ownership.

WEC Energy Group, Inc. (WEC/Equal Weight/\$104.43) (Kalton)

Diving Into the '21-25 Capital Plan. Mgmt. provided additional details on the company's '21-25 capital investment plan (called the ESG Progress Plan) – \$16.1B plan represents a \$1.1B increase from '20-24. The refresh leans more heavily on renewables (25% of the spend) including new regulated solar (800 MW), wind (100 MW) and battery storage (600 MW). The amount of battery storage was a little bit of a surprise to us but mgmt. indicated that the storage integrates nicely into the system. Separately, the contracted renewables bucket (Energy infrastructure) consists of \$2.2B of planned investment during the period and incorporates the already announced \$400mm Thunderhead project. If WEC executes on the full \$2.2B we think Energy Infra's EPS contribution would be ~8% of consolidated EPS in '25, which would still give the company some wiggle room under the 10% threshold (WEC wants to limit non-utility EPS to 10% of total EPS max).

Other Tidbits. (1) Mgmt. indicated that the capital investment plan supports a 5-yr EPS CAGR of just above 6%. Other assumptions underlying this statement include earned ROEs at the allowed levels (little change to allowed ROEs during the period) and equity ratios at the mid-point of the equity ratio ranges of 50-55% for the WI utilities. Optimizing the equity ratio represents a not insignificant EPS opportunity in and of itself. For context, we estimate annual EPS could be \$0.10-0.15 higher by '25 if the WI utilities earned the allowed ROEs at a 55% equity layer, which could add 50bps to the 5-yr EPS CAGR. Keep in mind, there is also an opportunity to retain a portion of earnings above the ROE thresholds. Optimizing the WI utilities earnings will depend on a number of factors including future rate case outcomes, sales trends and effective cost management. That being said, the equity ratios provide yet another lever to

help achieve an EPS CAGR toward the upper end of the company's 5-7% goal and/or help offset unforeseen pressures. (2) WEC remains very comfortable with owning gas LDCs and we got the sense they would consider a gas LDC purchase as long as it fit mgmt's famous three criteria: (1) EPS accretive in first full year, (2) credit neutral, and (3) long-term earnings growth prospects consistent with WEC's organic growth. Executive Chairman Gale Klappa suggested that the growth criteria could prove to be an impediment.

Xcel Energy, Inc. (XEL/Equal Weight/\$74.69) (Kalton)

CapEx Discussion. Our EEI discussion centered on XEL's recent 5-yr capex refresh for '21-25. As a reminder, the base plan of \$22.6B (vs. the '20-24 guidance of \$22.0B) results in a rate base CAGR of 6.3% (off the 20E base). In addition, XEL provided a separate analysis including the \$1.4B upside related to NSPM's Minnesota Relief & Recovery Proposal consisting of wind repowering (\$750mm) and new solar (\$650mm). The "incremental" plan would result in a 6.9% rate base CAGR. Mgmt. remains optimistic that the MPUC will approve the spend and noted that the opposition's arguments are consistent with prior arguments in similar proposals (questioning the long-term customer benefits based on NSPM's power price assumptions). Our capex outlook includes the \$1.4B of incremental spend. Separately, mgmt. poured cold water on our question as to whether XEL held back other capex from the base plan while NSPM's request is pending – they characterized the base capex plan as fully representing the assessed needs while also pointing out that additional capital tends to come into the plan over time (both traditional capex along with potential PPA buyouts). On the PPA front, mgmt. indicated that while discussions with parties are always ongoing, things tend to heat up around the operating utilities' IRPs.

Hydrogen. We have long viewed XEL as being ahead of the game in terms of long-term system planning and understanding new technology (not to be confused with early adoption as mgmt. carefully considers technology risk and customer rate implications). On that note, mgmt. is evaluating hydrogen as a future fuel source to help bridge the last mile to zero carbon. Our take is that XEL is skeptical that green hydrogen production will be economically attractive and, instead, pointed out that using excess nuclear output from the company's existing nuclear facilities to produce hydrogen could be 1/3 more cost effective. Fun fact: nuclear produced hydrogen is referred to as Purple Hydrogen.

Acronyms

ALJ – Administrative Law Judge
 AMI – Advanced Metering Infrastructure
 ATM – At the Market
 BOEM – Bureau of Ocean Energy Management
 BPU – Board of Public Utilities
 CCRO – Customer Credit Reinvestment Offset
 CEF – Clean Energy Future
 CEHE – CenterPoint Energy Houston Electric
 COP – Construction and Operations Plan
 DR – Demand Response
 DSM – Demand-Side Management
 ECA – Energía Costa Azul
 EE – Energy Efficiency
 EIA – Energy Information Administration
 ESG – Environmental, Social and Governance
 EV – Electric Vehicle
 FID – Final Investment Decision
 FRP – Formula Rate Plan
 FPSC – Florida Public Service Commission
 GHG – Greenhouse Gas
 IRP – Integrated Resource Plan
 LDC – Local Distribution Company
 LFCR – Lost Fixed Cost Recovery
 LNG – Liquefied Natural Gas
 MOPR – Minimum Offer Price Rule
 MPUC – Minnesota Public Utilities Commission
 MVP – Mountain Valley Pipeline
 PBR – Performance Based Ratemaking
 PISA – Plant-in-Service Accounting
 PPA – Power Purchase Agreement
 PURA – Public Utilities Regulatory Authority
 REC – Renewable Energy Credit
 RFP – Request for Proposals
 ZEC – Zero Emission Credit

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